MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

DEC5614 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

19 OCTOBER 2019
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 13 pages excluding the cover page.
2. For SECTION A questions, please answer in the OMR sheet provided.
3. For SECTION B questions, please answer in the Answer Booklet provided.

SECTION A: Multiple Choice Questions (40 Marks)

1. When an economist talks of scarcity, the economist is referring to the _____.

   A. ability of society to employ all of its resources
   B. ability of society to consume all that it produces
   C. ability of society to continually make technological breakthrough and increase production
   D. inability of society to satisfy all human wants because of limited resources

2. Which of the following questions is a topic that would be studied by microeconomics?

   A. Why did production and the number of jobs shrink in 2018?
   B. Will the current budget deficit affect the well-being of the next generation?
   C. What is the current unemployment rate in the Malaysia?
   D. How will a lower price of digital cameras affect the quantity of cameras sold?

3. The branch of economics that deals with the analysis of the whole economy is called _____.

   A. metroanalysis
   B. marginal analysis
   C. macroeconomics
   D. microeconomics

4. The study of economics can be defined as the social science that explains the _____.

   A. choices what we make as we cope with scarcity
   B. choices made by households
   C. choices we make when we trade in markets
   D. choices made by politicians

5. When Malaysia builds a school using few machines and a more labour, it is answering the _____ part of one of the two big economic questions.

   A. what
   B. how
   C. where
   D. for whom

Continued...

6. From the following, which one is **NOT** a factor of production?

   A. The wages paid to workers.
   B. The water used to cool a nuclear power plant.
   C. The effort of farmers raising cattle.
   D. The management skill of a small business owner.

7. The "gifts of nature" are included as part of which of the following?

   A. Labour.
   B. Capital.
   C. Entrepreneurship.
   D. Land.

8. Which of the following is an example of human capital?

   A. All capital owned by the individuals, but not by corporations or governments.
   B. All capital owned by individuals or corporations, but not by governments.
   C. The skill and knowledge of workers.
   D. Machinery that meets or exceed the state safety for use by humans.

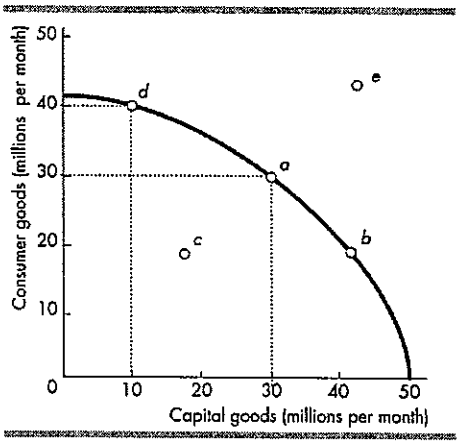

Figure 1

9. Refer to the production possibilities frontier of a country in the figure 1 above. Which production point indicates the country need to increase the production of consumer goods?

   A. Point *a* to *d*.
   B. Point *a* to *b*.
   C. Point *b* to *c*.
   D. Point *a* to *e*.

Continued...

10. Suppose the price elasticity of demand for oil is 0.25. In order to lower the price of oil by 20%, the quantity of oil supplied must be increased by _____.

A. 5%
B. 7%
C. 8%
D. 9%

11. When a consumer is relatively insensitive to changes in the price of a good, then the consumer's demand for the good is _____.

A. elastic
B. inelastic
C. perfectly elastic
D. unit elastic

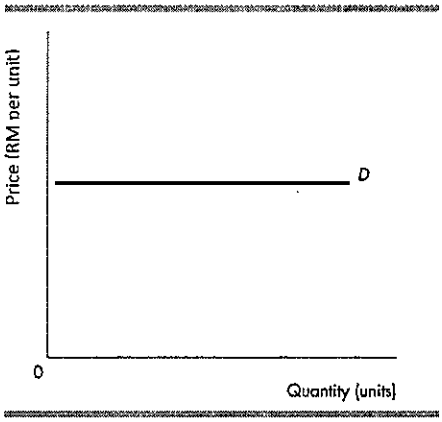

Figure 2

12. The demand curve in Figure 2 illustrates a product whose demand has a price elasticity of demand equal to _____.

A. zero at all prices
B. one at all prices
C. a different amount at different prices
D. infinity

Continued...

13. In poor countries, the demand for food would be _____.

A. elastic but less elastic than in rich countries
B. elastic and more elastic than in rich countries
C. inelastic but more elastic than in rich countries
D. inelastic and more inelastic than in rich countries

14. The cross elasticity of demand between apples and oranges is defined as the _____.

A. price elasticity of demand for apples divided by the price elasticity of demand for oranges
B. percentage change in the quantity of apples demanded divided by the percentage change in the price of oranges
C. percentage change in the quantity of apples demanded divided by the percentage change in the quantity of oranges demanded
D. change in the quantity of apples demanded divided by the change in the quantity of oranges demanded

15. If the income elasticity of demand for fried noodle is -1.3, then the fried noodle _____.

A. is an inferior good
B. has an elastic demand
C. is income elastic
D. is a normal good

16. An important determinant of the price elasticity of supply is _____.

A. whether the good is a durable or a nondurable
B. how well consumers like the commodity
C. the proportion of the consumer's total budget spent on the good
D. the time period firms have to adjust to a new price

17. The elasticity of supply does **NOT** depend on _____.

A. resource substitution possibilities
B. the time elapsed since the price change
C. the fraction of income spent on the product
D. does not on any factors

Continued...

18. A firm's basic goal is to _____.

A. maximising total revenue
B. maximising sales
C. maximising profit
D. minimising cost

19. Which of the following is a **CORRECT** statement?

A. Economic efficiency definitely occurs when a firm cannot increase production without using more resources.
B. Technological efficiency depends only on production methods, while economic efficiency depends on the costs of resources.
C. Technological efficiency depends on the costs resources while economic efficiency depends on only production methods.
D. Economic efficiency occurs when a firm constantly do nothing.

20. The difference between the market price of a new car used by a firm and the market price of the same car one year later is known as _____.

A. physical depreciation
B. economic depreciation
C. economic deterioration
D. physical deterioration

Technique	Labour (hours)	Capital (machines)
A	20	70
B	50	50
C	20	120
D	60	40

Table 1

21. In Table 1 above, the technique that is not technologically efficient is _____.

A. A
B. B
C. C
D. D

Continued...

22. In Table 1, if the price of an hour labour is RM20 and the price of a unit of capital is RM40, then the most economically efficient technique for producing 100 trousers is _____.

A. A
B. B
C. C
D. D

23. After constructing a new warehouse, the cost of building the warehouse is a _____.

A. sunk cost
B. marginal cost
C. fixed cost
D. variable cost

24. In the long-run, which of the following factor is fixed?

A. Capital.
B. Land.
C. Entrepreneurship.
D. No factors of production are variable in the long-run.

Labor (workers)	Total product (units per day)
0	0
1	3
2	12
3	19
4	23
5	25

Table 2

25. In Table 2, if the firm employs 5 workers, average product and marginal product of the fifth worker are _____.

A. 3 and 1 respectively
B. 2 and 2 respectively
C. 5 and 2 respectively
D. 6 and 4 respectively

Continued...

26. In perfect competition, the product of a single firm _____.

A. has many perfect substitutes produced by other firms
B. has many perfect complements produced by other firms
C. is sold under many differing brand names
D. is sold to different customers at different prices

27. In the short run, a perfectly competitive firm will make an economic profit as long as _____.

A. P>AVC
B. P>ATC
C. P>AFC
D. it maximises its profit

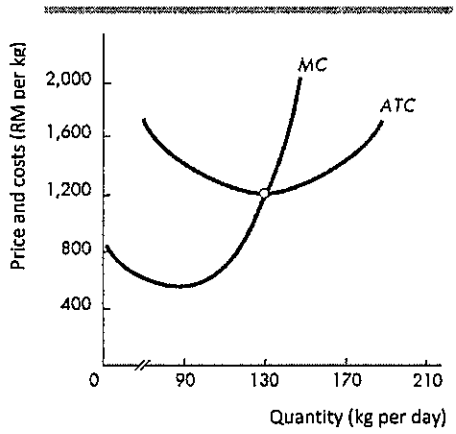

Figure 3

28. Figure 3 shows the costs for a grower in the perfectly competitive fish market. If the price is RM1,200 per kg of fish, the firm is _____.

A. making an economic profit
B. making zero economic profit
C. incurring an economic loss
D. incurring both profit and loss

Continued...

29. What will be the effect if firms in a perfectly competitive industry are making zero economic profit?

A. Some of those firms will leave the industry, because firms cannot persistently go without making economic profit.
B. New firms will enter the industry, because the new entrants would be ensured of doing as well as in their best-foregone alternative.
C. Some of the firms will temporarily shut down.
D. There is no incentive for either entry or exit.

Quantity (units)	Price (RM per unit)
1	8
2	7
3	6
4	5
5	4
6	3

Table 3

30. Table 3 gives the demand for a monopolist's output. Between which two quantities is marginal revenue equal to 0?

A. 4 and 5.
B. 3 and 4.
C. 2 and 3.
D. 1 and 2.

31. Which of the following is a characteristic of a single-price monopoly?

A. The firm is a price taker.
B. Price exceeds marginal revenue.
C. Demand is perfectly elastic.
D. There are many close substitutes for the firm's product.

32. Which of the following is **NOT** a characteristic of a monopoly?

A. A single firm.
B. No close substitutes for the product demand.
C. Barriers to entry.
D. Easy entry and exit.

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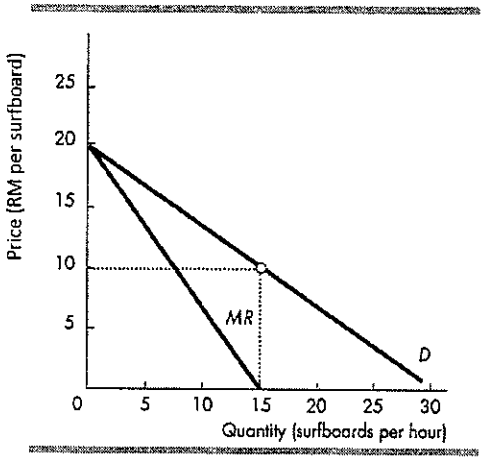

Figure 4

33. Alia's Surfboards is the sole renter of surfboards on Big Wave Redang Island. Alia's demand and marginal revenue curve are illustrated in Figure 4. Alia's currently rents 15 surfboards an hour. How much is Alia's total revenue from the 15 surfboards?

A. RM150.
B. RM200.
C. RM225.
D. RM300.

34. Which of the following statements is **TRUE?**

A. Perfectly competitive markets are efficient, but monopoly markets never efficient.
B. Perfectly competitive markets always reach equilibrium but monopoly markets never reach equilibrium.
C. Perfect price discriminating monopolists can eliminate all deadweight losses and achieve efficiency.
D. Both perfect competitive markets and monopolist are inefficient.

35. Monopolistic competition is a market in which _____ firms produce _____ goods and services.

A. many; identical
B. many; differentiated
C. few; differentiated
D. few; identical

Continued...

36. Which of the following statements concerning to profit-maximizing monopolistically competitive firm is **NOT** true?

A. A firm's price equals the price at which the MR curve intersects the MC curve.
B. A firm produces the quantity at which the MR curve intersects the MC curve.
C. The MC curve intersects the ATC curve at the ATC curve's lowest point.
D. The MR curve lies below the demand curve.

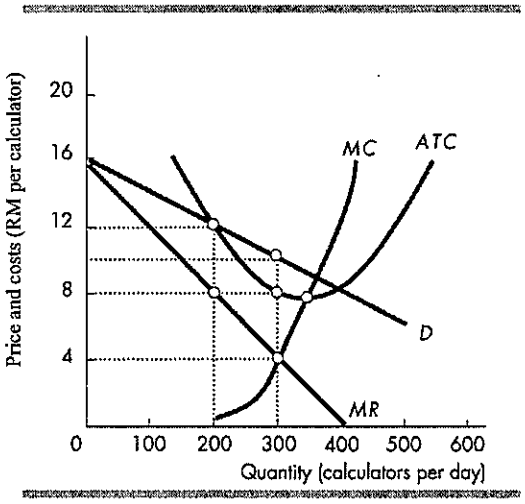

Figure 5

37. Figure 5 shows the situation in Cantik Sdn. Bhd., a firm in monopolistic competition that produces calculators. What quantity does the firm produce?

A. 100 calculators per day.
B. 200 calculators per day.
C. 250 calculators per day.
D. 300 calculators per day.

38. Figure 5 shows the situation in Cantik Sdn. Bhd., a firm monopolistic competition that produces calculators. What is the firm's profit maximising price?

A. RM12.
B. RM10.
C. RM8.
D. RM4.

Continued...

39. In _____ market structure, a firm's output depends _____.

A. an oligopoly, only on its own marginal revenue and marginal cost curves
B. an oligopoly; in part on its competitors' price and quantity decisions
C. a monopolistically competitive; in part on its competitors' price and quantity decisions
D. a monopolistically competitive; only on its marginal revenue curve

40. A cartel is a group of firms which agree to _____.

A. raise the price of their product
B. lower the price of their product
C. increase the amount their produce
D. behave competitively

Continued...

SECTION B: Structured Questions (60 Marks)

QUESTION 1

(a) Briefly explain how does a firm achieved production efficiency? (2 marks)

(b) List and explain **TWO (2)** factors that can influence the economic growth. (4 marks)

(c) Draw a production possibilities frontier between peanuts and potatoes. Label the unattainable points, the attainable points with fully employed resources, and the attainable points with unemployed resources. (5 marks)

(d) Differentiate between comparative advantage and absolute advantage. (4 marks)

[Total 15 Marks]

QUESTION 2

(a) Answer the following questions from Table 4 that gives the demand schedule for t-shirt production.

	Price (RM per unit)	Quantity demanded (units)
A	14	10
B	12	15
C	10	20
D	8	25

Table 4

i. Calculate the price elasticity of demand from point A to point B. (3 marks)

ii. What is the price elasticity of demand based on your answer in (i) and why. (2 marks)

iii. If price decrease from RM14 to RM10, what would happen to the total revenue? Justify your answer. (6 marks)

(b) Explain any **TWO (2)** relationships for the price elasticity of supply. (4 marks)

[Total 15 Marks]

Continued...

QUESTION 3

(a) Discuss any **TWO (2)** firm's constraints in maximising profit. (8 marks)

(b) In short-run, the position of a firm's cost curves depends on **TWO (2)** factors i.e. technology and prices of factors of production. Briefly explain each. (6 marks)

[Total 14 Marks]

QUESTION 4

(a) Briefly discuss **THREE (3)** types of barriers to entry in monopoly market structure. (9 marks)

(b) List **THREE (3)** characteristics of monopolistic competition market structure. (3 marks)

(c) How does a monopolistic competition firm keeps making an economic profit during short and long run period? (4 marks)

[Total 16 Marks]

End of Paper